

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: VILLAGE OF GROSSE POINTE SHORES	County MACOMB/WAYNE
Audit Date March 31, 2005	Opinion Date May 27, 2005	Date Accountant Report Submitted To State: August 30, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 27400 Northwestern Highway P.O. Box 307	City Southfield	State MI	ZIP 48037
Accountant Signature <i>Plante & Moran, PLLC</i>			

Village of Grosse Pointe Shores, Michigan

Financial Report
with Supplemental Information
March 31, 2005

Village of Grosse Pointe Shores, Michigan

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Village of Grosse Pointe Shores, Michigan

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Independent Auditor's Report

To the Village Council
Village of Grosse Pointe Shores, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Grosse Pointe Shores, Michigan as of and for the year ended March 31, 2005, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Grosse Pointe Shores, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Grosse Pointe Shores, Michigan as of March 31, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, retirement system schedule of funding progress, and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Village Council
Village of Grosse Pointe Shores, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Grosse Pointe Shores, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note I, the Village has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of April 1, 2004.

Plante & Moran, PLLC

May 27, 2005

Village of Grosse Pointe Shores, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the Village of Grosse Pointe Shores, Michigan's financial performance provides an overview of the Village's financial activities for the fiscal year ended March 31, 2005. Please read it in conjunction with the Village's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended March 31, 2005:

- State-shared revenue, our second largest revenue source, was reduced by the State of Michigan by approximately \$17,000 this year. The Village reacted by anticipating the reduction during our budget preparation process.
- Total fund balance related to the Village's General Fund increased by approximately \$380,000.
- The Village began a long-term investment in its infrastructure by issuing \$3,500,000 of capital improvement bonds.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Village as a whole and present a longer-term view of the Village's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements by providing information about the Village's most significant funds. The fiduciary fund statements provide financial information about activities for which the Village acts solely as a trustee or agent for the benefit of those outside of the government.

Village of Grosse Pointe Shores, Michigan

Management's Discussion and Analysis (Continued)

The Village as a Whole

The following table shows, in a condensed format, the net assets as of March 31, 2005 (in thousands of dollars). Prior year information is not available because this is the first year of the implementation of GASB Statement No. 34:

	Governmental Activities	Business-type Activities	Total
Assets			
Current assets	\$ 1,399	\$ 896	\$ 2,295
Noncurrent assets	<u>6,497</u>	<u>12,420</u>	<u>18,917</u>
Total assets	7,896	13,316	21,212
Liabilities			
Current liabilities	354	324	678
Long-term liabilities	<u>2,591</u>	<u>3,959</u>	<u>6,550</u>
Total liabilities	<u>2,945</u>	<u>4,283</u>	<u>7,228</u>
Net Assets			
Invested in capital assets - Net of related debt	4,595	8,241	12,836
Restricted	197	-	197
Unrestricted	<u>159</u>	<u>792</u>	<u>951</u>
Total net assets	<u>\$ 4,951</u>	<u>\$ 9,033</u>	<u>\$ 13,984</u>

Net assets of the governmental activities totaled approximately \$4.95 million at March 31, 2005. Of this amount, \$4.59 million was invested in capital assets, net of related debt.

Unrestricted net assets, the portion of net assets that can be used to finance day-to-day operations, totaled approximately \$159,000 for the governmental activities.

The net assets of the business-type activities totaled approximately \$9.03 million, of which \$8.24 million was invested in capital assets net of related debt.

Village of Grosse Pointe Shores, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the year ended March 31, 2005 (in thousands of dollars). Prior year information is not available because this is the first year of the implementation of GASB Statement No. 34:

	Governmental Activities	Business-type Activities	Total
Revenue			
Program revenue - Charges for services	\$ 350	\$ 1,304	\$ 1,654
General revenue:			
Property taxes	4,372	-	4,372
State-shared revenue	413	-	413
Unrestricted investment earnings	49	7	56
Miscellaneous	323	14	337
Transfers	(193)	193	-
Total revenue	5,314	1,518	6,832
Program Expenses			
General government	1,431	-	1,431
Public safety	2,321	-	2,321
Public works	1,294	-	1,294
Recreation and culture	517	-	517
Interest on long-term debt	11	-	11
Water and sewer	-	1,573	1,573
Marina	-	194	194
Total program expenses	5,574	1,767	7,341
Change in Net Assets	\$ (260)	\$ (249)	\$ (509)

Governmental Activities

The Village's largest sources of revenue are property taxes and state-shared revenue, which comprise approximately 90 percent of the total governmental revenue.

Public safety expenditures in the governmental activities account for 42 percent of the total amount expended. This past year, the Village experienced decreases in expenditures due to the elimination of one position and re-evaluating the need for additional equipment.

Village of Grosse Pointe Shores, Michigan

Management's Discussion and Analysis (Continued)

Business-type Activities

The Village's business-type activities include water, sewer, and marina. We provide water to our residents which is purchased from the Detroit Water System. Sewage treatment is provided through an agreement with Wayne County.

The Village's Funds

Our analysis of the Village's major funds begins on page 10, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Village as a whole. The Village Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Village's major governmental funds for 2005 include the General Fund and the Major and Local Street Funds. Both of the Village's Enterprise Funds are presented as major funds.

The General Fund pays for most of the Village's governmental services. The most significant are police and fire, which incurred expenses of approximately \$2,111,000 in 2005.

General Fund Budgetary Highlights

Over the course of the year, the Village amended the budget to take into account events during the year. The most significant change was to decrease the estimated expenditures for public safety by approximately \$169,000. This was due to the elimination of one position and re-evaluating the need for equipment purchases. Village departments overall stayed below budget, resulting in total expenditures approximately \$1,000 below budget. This allowed the General Fund's fund balance to increase from \$569,057 a year ago to \$950,269 at March 31, 2005.

Capital Asset and Debt Administration

At the end of 2005, the Village had approximately \$16 million invested in a broad range of capital assets, including buildings, police and fire equipment, and water and sewer lines. In addition, the Village has invested significantly in roads within the Village.

Contacting the Village's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Village offices.

Village of Grosse Pointe Shores, Michigan

Statement of Net Assets March 31, 2005

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
Assets			
Cash and investments (Note 3)	\$ 1,305,006	\$ 486,070	\$ 1,791,076
Receivables:			
Taxes	61,182	-	61,182
Customers	-	134,105	134,105
Other governmental units	101,940	-	101,940
Other	112,552	-	112,552
Inventories	12,008	2,145	14,153
Prepaid costs and other assets	30,475	49,802	80,277
Internal balances	(223,665)	223,665	-
Restricted assets (Note 9)	1,518,773	1,444,918	2,963,691
Investment in joint venture (Note 13)	20,925	-	20,925
Capital assets (Note 5):			
Nondepreciable	880,608	43,870	924,478
Depreciable - Net	4,076,230	10,931,398	15,007,628
Total assets	7,896,034	13,315,973	21,212,007
Liabilities			
Accounts payable	167,181	-	167,181
Accrued and other liabilities	67,830	26,443	94,273
Deferred revenue (Note 4)	92,833	77,741	170,574
Noncurrent liabilities (Note 8):			
Due within one year	26,371	220,000	246,371
Due in more than one year	2,591,317	3,959,106	6,550,423
Total liabilities	2,945,532	4,283,290	7,228,822
Net Assets			
Invested in capital assets - Net of related debt	4,594,489	8,241,080	12,835,569
Restricted:			
Streets and highways	69,166	-	69,166
Sanitation	127,563	-	127,563
Unrestricted	159,284	791,603	950,887
Total net assets	\$ 4,950,502	\$ 9,032,683	\$ 13,983,185

Village of Grosse Pointe Shores, Michigan

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 1,431,244	\$ 260,026	\$ -	\$ -
Public safety	2,321,195	90,188	-	-
Public works	1,294,304	-	-	-
Recreation and culture	517,426	-	-	-
Interest on long-term debt	10,992	-	-	-
Total governmental activities	5,575,161	350,214	-	-
Business-type activities:				
Water and sewer	1,573,189	1,133,677	-	-
Marina	193,594	169,878	-	-
Total business-type activities	1,766,783	1,303,555	-	-
Total primary government	<u>\$ 7,341,944</u>	<u>\$ 1,653,769</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Miscellaneous				
Transfers				
Total general revenues and transfers				
Change in Net Assets				
Net Assets - Beginning of year (as restated, Note 1)				
Net Assets - End of year				

Statement of Activities
Year Ended March 31, 2005

Net (Expense) Revenue and Changes in Net Assets

<u>Primary Government</u>		
<u>Governmental</u>	<u>Business-type</u>	
<u>Activities</u>	<u>Activities</u>	<u>Total</u>
\$ (1,171,218)	\$ -	\$ (1,171,218)
(2,231,007)	-	(2,231,007)
(1,294,304)	-	(1,294,304)
(517,426)	-	(517,426)
(10,992)	-	(10,992)
(5,224,947)	-	(5,224,947)
-	(439,512)	(439,512)
-	(23,716)	(23,716)
-	(463,228)	(463,228)
(5,224,947)	(463,228)	(5,688,175)
4,372,199	-	4,372,199
413,593	-	413,593
48,716	6,885	55,601
323,778	14,050	337,828
(193,195)	193,195	-
4,965,091	214,130	5,179,221
(259,856)	(249,098)	(508,954)
5,210,358	9,281,781	14,492,139
<u>\$ 4,950,502</u>	<u>\$ 9,032,683</u>	<u>\$ 13,983,185</u>

Village of Grosse Pointe Shores, Michigan

Governmental Funds Balance Sheet March 31, 2005

	Major Special Revenue Funds				
	General Fund	Major Street Fund	Local Street Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and investments (Note 3)	\$ 1,236,120	\$ 66,609	\$ 2,277	\$ -	\$ 1,305,006
Receivables:					
Delinquent taxes	61,182	-	-	-	61,182
Other	62,624	-	-	-	62,624
Due from other governmental units	70,477	21,760	9,703	-	101,940
Due from other funds (Note 6)	31,183	-	-	200,000	231,183
Inventories	12,008	-	-	-	12,008
Prepaid costs and other assets	30,475	-	-	-	30,475
Restricted assets (Note 9)	167,839	570,705	780,229	-	1,518,773
Total assets	<u>\$ 1,671,908</u>	<u>\$ 659,074</u>	<u>\$ 792,209</u>	<u>\$ 200,000</u>	<u>\$ 3,323,191</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 167,181	\$ -	\$ -	\$ -	\$ 167,181
Accrued and other liabilities	37,960	-	-	-	37,960
Due to other funds (Note 6)	423,665	-	31,183	-	454,848
Deferred revenue (Note 4)	92,833	-	-	-	92,833
Total liabilities	721,639	-	31,183	-	752,822
Fund Balances					
Reserved for:					
Sanitation expenditures	127,563	-	-	-	127,563
Future debt service requirements	7,652	-	-	-	7,652
Prepaid expenditures	30,475	-	-	-	30,475
Inventory	12,008	-	-	-	12,008
Unreserved - Undesignated	772,571	659,074	761,026	200,000	2,392,671
Total fund balances	950,269	659,074	761,026	200,000	2,570,369
Total liabilities and fund balances	<u>\$ 1,671,908</u>	<u>\$ 659,074</u>	<u>\$ 792,209</u>	<u>\$ 200,000</u>	
Amounts reported for governmental activities in the statement of net assets are different because:					
Capital assets used in governmental activities are not financial resources and are not reported in the funds					4,956,838
Revenue related to receivables is recorded in the statement of net assets at the time it is earned without regard to timeliness of remittance					49,928
Long-term liabilities are not due and payable in the current period and are not reported in the funds:					
Notes and bonds payable					(1,881,122)
Compensated absences					(672,788)
Net pension obligation of governmental activities is not reported in the funds					(63,778)
Accrued interest payable is not recorded in the funds					(29,870)
The investment in joint venture is not recorded in the funds					20,925
Net assets of governmental activities					<u>\$ 4,950,502</u>

Village of Grosse Pointe Shores, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended March 31, 2005

	<u>Major Special Revenue Funds</u>			Other	Total
	General	Major Street	Local Street	Nonmajor	Total
	Fund	Fund	Fund	Governmental	Governmental
	Fund	Fund	Fund	Funds	Funds
Revenue					
Property taxes	\$ 4,372,199	\$ -	\$ -	\$ -	\$ 4,372,199
State sources	235,597	121,626	54,211	-	411,434
Licenses and permits	54,667	-	-	-	54,667
Fines and forfeitures	239,526	-	-	-	239,526
Ambulance fees	35,521	-	-	-	35,521
Building rent	20,500	-	-	-	20,500
Interest and rentals	48,143	543	30	-	48,716
Other	172,976	-	-	9,622	182,598
Total revenue	5,179,129	122,169	54,241	9,622	5,365,161
Expenditures					
General government	1,545,913	-	-	-	1,545,913
Public safety	2,111,175	-	-	9,622	2,120,797
Public works	647,017	145,550	430,084	-	1,222,651
Recreation and culture	473,617	-	-	-	473,617
Total expenditures	4,777,722	145,550	430,084	9,622	5,362,978
Excess of Revenue Over (Under) Expenditures	401,407	(23,381)	(375,843)	-	2,183
Other Financing Sources (Uses)					
Issuance of long-term debt	173,000	600,000	1,127,000	-	1,900,000
Transfers out	(193,195)	-	-	-	(193,195)
Total other financing sources (uses)	(20,195)	600,000	1,127,000	-	1,706,805
Net Change in Fund Balances	381,212	576,619	751,157	-	1,708,988
Fund Balances - Beginning of year	569,057	82,455	9,869	200,000	861,381
Fund Balances - End of year	\$ 950,269	\$ 659,074	\$ 761,026	\$ 200,000	\$ 2,570,369

Village of Grosse Pointe Shores, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended March 31, 2005

Net Change in Fund Balances - Total Governmental Funds **\$ 1,708,988**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures;
in the statement of activities, these costs are allocated
over their estimated useful lives as depreciation:

Capital outlay expenditures	364,905
Depreciation expense	(311,320)

Revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds	2,159
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Bond proceeds are not reported as financing sources on the statement of activities	(1,881,122)
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Return on investment in joint venture is not recorded in the funds	(5,724)
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Accrued interest is recorded on debt when incurred in the statement of activities	(29,870)
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Increase in accumulated employee sick and vacation pay is recorded when earned in the statement of activities	<u>(107,872)</u>
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Change in Net Assets of Governmental Activities **\$ (259,856)**

Village of Grosse Pointe Shores, Michigan

Proprietary Funds - Enterprise Funds Statement of Net Assets March 31, 2005

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
Assets			
Cash and investments (Note 3)	\$ 1,305,006	\$ 486,070	\$ 1,791,076
Receivables:			
Taxes	61,182	-	61,182
Customers	-	134,105	134,105
Other governmental units	101,940	-	101,940
Other	112,552	-	112,552
Inventories	12,008	2,145	14,153
Prepaid costs and other assets	30,475	49,802	80,277
Internal balances	(223,665)	223,665	-
Restricted assets (Note 9)	1,518,773	1,444,918	2,963,691
Investment in joint venture (Note 13)	20,925	-	20,925
Capital assets (Note 5):			
Nondepreciable	880,608	43,870	924,478
Depreciable - Net	4,076,230	10,931,398	15,007,628
Total assets	7,896,034	13,315,973	21,212,007
Liabilities			
Accounts payable	167,181	-	167,181
Accrued and other liabilities	67,830	26,443	94,273
Deferred revenue (Note 4)	92,833	77,741	170,574
Noncurrent liabilities (Note 8):			
Due within one year	26,371	220,000	246,371
Due in more than one year	2,591,317	3,959,106	6,550,423
Total liabilities	2,945,532	4,283,290	7,228,822
Net Assets			
Invested in capital assets - Net of related debt	4,594,489	8,241,080	12,835,569
Restricted:			
Streets and highways	69,166	-	69,166
Sanitation	127,563	-	127,563
Unrestricted	159,284	791,603	950,887
Total net assets	<u>\$ 4,950,502</u>	<u>\$ 9,032,683</u>	<u>\$ 13,983,185</u>

Village of Grosse Pointe Shores, Michigan

Proprietary Funds - Enterprise Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended March 31, 2005

	Marina	Water and Sewer	Total
Operating Revenue			
Customer billings	\$ -	\$ 1,133,677	\$ 1,133,677
Other charges for services	169,878	-	169,878
Total operating revenue	169,878	1,133,677	1,303,555
Operating Expenses			
Water supply and sewage disposal	-	750,202	750,202
Repairs and maintenance	17,528	110,070	127,598
General and administrative	73,236	164,532	237,768
Depreciation	102,830	433,833	536,663
Total operating expenses	193,594	1,458,637	1,652,231
Operating Loss	(23,716)	(324,960)	(348,676)
Nonoperating Revenue (Expenses)			
Interest income	6,885	-	6,885
Interest expense	-	(93,640)	(93,640)
Other	14,050	(20,912)	(6,862)
Total nonoperating revenue (expenses)	20,935	(114,552)	(93,617)
Loss - Before transfers	(2,781)	(439,512)	(442,293)
Transfers In	-	193,195	193,195
Change in Net Assets	(2,781)	(246,317)	(249,098)
Net Assets - Beginning of year (as restated, Note 1)	1,555,004	7,726,777	9,281,781
Net Assets - End of year	<u>\$ 1,552,223</u>	<u>\$ 7,480,460</u>	<u>\$ 9,032,683</u>

Village of Grosse Pointe Shores, Michigan

Proprietary Funds - Enterprise Funds Statement of Cash Flows Year Ended March 31, 2005

	Marina	Water and Sewer	Total
Cash Flows from Operating Activities			
Receipts from customers	\$ 169,878	\$ 1,074,991	\$ 1,244,869
Payments to suppliers	(184,202)	(999,194)	(1,183,396)
Net cash provided by (used in) operating activities	(14,324)	75,797	61,473
Cash Flows from Capital and Related Financing Activities			
Transfers in from other funds	-	193,195	193,195
Proceeds from long-term debt	-	1,584,106	1,584,106
Purchase of capital assets	-	(67,417)	(67,417)
Bond issue costs	-	(20,912)	(20,912)
Principal and interest paid on capital debt	-	(263,195)	(263,195)
Net cash provided by capital and related financing activities	-	1,425,777	1,425,777
Cash Flows from Investing Activities			
Interest received on investments	6,885	-	6,885
Other receipts	14,050	-	14,050
Net cash provided by investing activities	20,935	-	20,935
Net Increase in Cash and Cash Equivalents	6,611	1,501,574	1,508,185
Cash and Cash Equivalents - Beginning of year	422,803	-	422,803
Cash and Cash Equivalents - End of year	<u>\$ 429,414</u>	<u>\$ 1,501,574</u>	<u>\$ 1,930,988</u>
Balance Sheet Classification of Cash and Cash Equivalents			
Cash and investments	\$ 429,414	\$ 56,656	\$ 486,070
Restricted assets (Note 9)	-	1,444,918	1,444,918
Total cash and cash equivalents	<u>\$ 429,414</u>	<u>\$ 1,501,574</u>	<u>\$ 1,930,988</u>
Reconciliation of Operating Loss to Net Cash from Operating Activities			
Operating loss	\$ (23,716)	\$ (324,960)	\$ (348,676)
Adjustments to reconcile operating loss to net cash from operating activities:			
Depreciation and amortization	102,830	433,833	536,663
Changes in assets and liabilities:			
Receivables	-	(58,686)	(58,686)
Due from other funds	(75,388)	22,305	(53,083)
Other assets	-	2,307	2,307
Deferred revenue	(18,050)	-	(18,050)
Other liabilities	-	998	998
Net cash provided by (used in) operating activities	<u>\$ (14,324)</u>	<u>\$ 75,797</u>	<u>\$ 61,473</u>

Noncash Investing, Capital, and Financing Activities - During the year ended December 31, 2004, there were no noncash investing, capital, or financing activities.

Village of Grosse Pointe Shores, Michigan

Fiduciary Funds Statement of Net Assets March 31, 2005

	Pension and Other Post- employment Benefit Trust Funds	Agency Fund
Assets		
Cash and cash equivalents (Note 3)	\$ 1,251,903	\$ 103,485
Investments (Note 3):		
U.S. government securities	1,638,087	-
Common and preferred stock	9,837,197	-
Corporate bonds	3,625,869	-
Accrued interest and dividends	93,051	-
Prepaid expenditures	18,457	-
Total assets	16,464,564	<u>\$ 103,485</u>
Liabilities - Other liabilities	<u>60,504</u>	<u>\$ 103,485</u>
Net Assets - Held in trust for pension and other employee benefits	<u>\$ 16,404,060</u>	

Village of Grosse Pointe Shores, Michigan

Fiduciary Funds Statement of Changes in Net Assets Year Ended March 31, 2005

	Pension and Other Post- employment Benefit Trust Funds
Additions	
Investment income:	
Interest, dividends, and net realized income on investments	\$ 492,993
Net decrease in fair value of investments	(326,843)
Less investment expenses	<u>(153,936)</u>
Net investment income	12,214
Contributions:	
Employer	393,137
Employee	<u>146,307</u>
Total contributions	<u>539,444</u>
Total additions	551,658
Deductions	
Pension benefit payments	713,206
Health care benefit payments	<u>228,138</u>
Total deductions	<u>941,344</u>
Change in Net Assets Held in Trust	(389,686)
Net Assets Held in Trust for Pension and Other Employee Benefits	
Net assets - April 1, 2004	<u>16,793,746</u>
Net assets - March 31, 2005	<u><u>\$ 16,404,060</u></u>

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2005

Note I - Summary of Significant Accounting Policies

The accounting policies of the Village of Grosse Pointe Shores, Michigan (the "Village") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Village of Grosse Pointe Shores, Michigan:

Reporting Entity

The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. The component units discussed below are included in the Village's reporting entity because of the significance of its operational and financial relationship with the Village. The General and Public Safety Retirement System and Retired Employees' Health Care Benefits trust funds have been blended into the Village's financial statements. The General and Public Safety Retirement System and Retired Employees' Health Care Benefits trust funds are governed by a five-member pension board that includes the Village Council president and two individuals chosen by the Village Council. The General and Public Safety Retirement System and Retired Employees' Health Care Benefits trust funds are reported as if they were part of the primary government because of the fiduciary responsibility that the Village retains relative to the operations of the funds.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue and interest associated with the current fiscal period. All other revenue items are considered to be available only when cash is received by the Village.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Village reports the following major governmental funds:

General Fund - The General Fund contains the records of the ordinary activities of the Village that are not accounted for in another fund. General Fund activities are financed by revenue from property taxes, state-shared revenue, and other sources.

Major Street Fund - The Major Street Fund accounts for the various state-shared and other revenues related to the repair and maintenance of the Village's major streets and trunklines.

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Local Street Fund - The Local Street Fund accounts for the various state-shared and other revenues related to the repair and maintenance of the Village's local streets.

The Village reports the following major proprietary funds:

Marina Fund - The Marina Fund accounts for the activities of the Village's marina.

Water and Sewer Fund - The Water and Sewer Fund accounts for the activities of the water distribution system and sewage collection system.

Additionally, the Village reports the following fund types:

Pension and Other Employee Benefits Trust Funds - The Pension and Other Employee Benefits Trust Funds account for resources accumulated for pension and other postemployment benefit payments to qualified employees.

Agency Funds - The Agency Fund accounts for assets held by the Village in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Village has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities and Enterprise Funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Village's water and sewer function and various other functions of the Village. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include charges to customers or applicants for goods, services, or privileges provided. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Inventories - Inventories in the General Fund and Water and Sewer Fund are valued at cost, on a first-in, first-out basis. Fund balance in the General Fund has been reserved in an equal amount.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Village as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Vehicles	8 to 15 years
Machinery and equipment	5 to 20 years
Buildings	50 years
Land improvements	20 years
Infrastructure	20 to 50 years

Compensated Absences (Sick Leave) - It is the Village's policy to permit employees to accumulate earned but unused sick pay benefits. All sick pay is accrued when incurred in the government-wide and proprietary financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2005

Note I - Summary of Significant Accounting Policies (Continued)

Accounting Changes

GASB Statement No. 34 - Effective April 1, 2004, the Village implemented the provisions of Governmental Accounting Standards Board Statement No. 34 (GASB No. 34), *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements. Changes to the Village's financial statements as a result of GASB No. 34 are as follows:

- A management's discussion and analysis (MD&A) section providing analysis of the Village's overall financial position and results of operations has been included.
- Government-wide financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the Village's activities have been provided.
- The fund financial statements focus on major funds rather than fund types.
- Capital assets at April 1, 2004 previously reported in the General Fixed Assets Account Group have been adjusted by approximately \$5,783,000 to reflect the historical cost of the Village's capital assets at that date.
- The governmental activities column includes long-term obligations totaling approximately \$629,000 previously reported in the General Long-term Debt Account Group.

The Enterprise Fund net assets as of April 1, 2004 have been restated as follows:

	Water and Sewer Fund	Marina Fund	Total
Net assets - As previously reported	\$ 955,675	\$ 561,930	\$ 1,517,605
Capital assets - Net of accumulated depreciation	<u>6,771,102</u>	<u>993,074</u>	<u>7,764,176</u>
Net assets - March 31, 2004, as restated	<u>\$ 7,726,777</u>	<u>\$ 1,555,004</u>	<u>\$ 9,281,781</u>

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2005

Note 2 - Stewardship, Compliance, and Accountability

Construction Code Fees - The Village tracks the results of building department operations in the General Fund. In accordance with Michigan Public Act 245 of 1999 (the "Act"), the Village is required to maintain an accounting system that separately accumulates revenue and expenditures related to the building department function. As required under provisions of the Act, the Village adopted this accounting treatment effective January 1, 2000. For the year ended March 31, 2005, building department revenue and expenditures totaled approximately \$54,000 and \$76,000, respectively, which resulted in an excess of expenditures over revenue of approximately \$22,000 for the year. A summary of the activity is presented below:

Accumulated shortfall - April 1, 2004	\$ (35,481)
2004-2005 building department activity:	
Current year revenue	53,793
Current year expenditures	<u>76,204</u>
Excess of revenue over expenditures	<u>(22,411)</u>
Accumulated shortfall - March 31, 2005	<u><u>\$ (57,892)</u></u>

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The Village has designated two banks for the deposit of its funds.

The Village has adopted an investment policy in accordance with state law and management believes that the Village's deposits and investments are in accordance with statutory authority.

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2005

Note 3 - Deposits and Investments (Continued)

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Total Primary Government	Fiduciary Funds
Cash and cash equivalents	\$ 1,305,006	\$ 486,070	\$ 1,791,076	\$ 1,355,388
Investments	-	-	-	15,101,153
Restricted assets	<u>1,518,773</u>	<u>1,444,918</u>	<u>2,963,691</u>	<u>-</u>
Total	<u>\$ 2,823,779</u>	<u>\$ 1,930,988</u>	<u>\$ 4,754,767</u>	<u>\$ 16,456,541</u>

The breakdown between deposits and investments for the Village is as follows:

	Primary Government	Fiduciary Funds
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 362,861	\$ 107,849
Investments in securities, mutual funds, and similar vehicles	4,391,256	16,348,692
Petty cash or cash on hand	<u>650</u>	<u>-</u>
Total	<u>\$ 4,754,767</u>	<u>\$ 16,456,541</u>

Deposits

The bank balance of the Village's deposits is \$521,357, of which \$194,957 is covered by federal depository insurance. The remainder was uninsured and uncollateralized. The Village believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Village evaluates each financial institution with which it deposits Village funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2005

Note 3 - Deposits and Investments (Continued)

Investments

The General and Public Safety Retirement System and Retired Employees' Health Care Benefits trust funds are authorized by Michigan Public Act 485 of 1996 to also invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

Investments are categorized into these three categories of credit risk:

Category 1 - Insured or registered, with securities held by the Village or its agent in the Village's name;

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Village's name; and

Category 3 - Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Village's name.

At year end, the Village's investment balances were categorized as follows:

	Category			Reported Amount (Fair Value)
	1	2	3	
Primary government - Investments not subject to categorization - Mutual funds	\$ -	\$ -	\$ -	\$ 4,391,256
Fiduciary funds:				
U.S. government securities	\$ -	\$ -	\$ 1,638,087	\$ 1,638,087
Common and preferred stock	-	-	9,837,197	9,837,197
Corporate bonds	-	-	3,625,869	3,625,869
Subtotal	\$ -	\$ -	\$ 15,101,153	15,101,153
Investments not subject to categorization - Mutual funds				1,247,539
Total fiduciary funds				\$ 16,348,692

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2005

Note 3 - Deposits and Investments (Continued)

Investments not subject to categorization are not evidenced by securities that exist in physical or book entry form. The bank investment pools and mutual funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. The mutual funds are registered with the SEC. The bank investment pools are regulated by the Michigan Banking Act. The fair value of the position in the bank investment pools is the same as the value of the pool shares.

Included in the investments of the General and Public Safety Retirement System and Retired Employees' Health Care Benefits trust funds are approximately \$342,000 of securities issued by the Federal National Mortgage Association (FNMA) and approximately \$505,000 of securities issued by the Federal Home Loan Mortgage Corporation (FHLMC) or Federal Home Loan Bank (FHLB). These investments are usually not backed by the full faith and credit of the U.S. government, but are generally considered to offer modest credit risks. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.

Note 4 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Governmental Activities Unearned	Business-type Activities Unearned
Property taxes	\$ 75,246	\$ -
Payments received for boat well rentals prior to being earned	-	77,741
Other	17,587	-
Total	<u>\$ 92,833</u>	<u>\$ 77,741</u>

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2005

Note 5 - Capital Assets

Capital asset activity of the Village's governmental and business-type activities was as follows:

	Balance April 1, 2004	Additions	Disposals and Adjustments	Balance March 31, 2005
Governmental Activities				
Capital assets not being depreciated -				
Land	\$ 880,608	\$ -	\$ -	\$ 880,608
Capital assets being depreciated:				
Vehicles	1,236,483	92,238	81,858	1,246,863
Machinery and equipment	424,256	-	-	424,256
Buildings	1,271,100	-	-	1,271,100
Land improvements	648,970	-	-	648,970
Infrastructure	7,013,095	335,786	-	7,348,881
Subtotal	10,593,904	428,024	81,858	10,940,070
Accumulated depreciation:				
Vehicles	969,518	55,361	18,739	1,006,140
Machinery and equipment	201,662	36,839	-	238,501
Buildings	662,074	21,092	-	683,166
Land improvements	390,154	32,449	-	422,603
Infrastructure	4,347,851	165,579	-	4,513,430
Subtotal	6,571,259	311,320	18,739	6,863,840
Net capital assets being depreciated	4,022,645	116,704	63,119	4,076,230
Net capital assets	<u>\$ 4,903,253</u>	<u>\$ 116,704</u>	<u>\$ 63,119</u>	<u>\$ 4,956,838</u>

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2005

Note 5 - Capital Assets (Continued)

Business-type Activities	Balance April 1, 2004 (Restated)	Additions	Disposals and Adjustments	Balance March 31, 2005
Capital assets not being depreciated:				
Land	\$ 5,053	\$ -	\$ -	\$ 5,053
Construction in progress	-	38,817	-	38,817
Subtotal	5,053	38,817	-	43,870
Capital assets being depreciated:				
Vehicles	-	28,600	-	28,600
Machinery and equipment	18,700	-	-	18,700
Buildings	234,500	-	-	234,500
Infrastructure	21,409,961	500,000	-	21,909,961
Marina	5,870,204	-	-	5,870,204
Subtotal	27,533,365	528,600	-	28,061,965
Accumulated depreciation:				
Vehicles	-	596	-	596
Machinery and equipment	18,700	-	-	18,700
Buildings	232,155	2,345	-	234,500
Infrastructure	11,552,560	430,892	-	11,983,452
Marina	4,790,489	102,830	-	4,893,319
Subtotal	16,593,904	536,663	-	17,130,567
Net capital assets being depreciated	10,939,461	(8,063)	-	10,931,398
Net capital assets	<u>\$ 10,944,514</u>	<u>\$ 30,754</u>	<u>\$ -</u>	<u>\$ 10,975,268</u>

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2005

Note 5 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 39,607
Public safety	46,613
Public works	192,508
Recreation and culture	<u>32,592</u>

Total governmental activities	<u>\$ 311,320</u>
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Business-type activities:

Water and sewer	\$ 433,833
Marina	<u>102,830</u>

Total business-type activities	<u>\$ 536,663</u>
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Construction Commitments - The Village has active construction projects at year end. The projects include various infrastructure rehabilitation projects and a pump station renovation. At year end, the Village's commitments with contractors are as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Infrastructure rehabilitation	\$ -	\$ 1,073,018
Pump station renovation	<u>-</u>	<u>157,322</u>
Total	<u>\$ -</u>	<u>\$ 1,230,340</u>

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2005

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds		
Other governmental funds	General Fund	\$ 200,000
Marina Fund	General Fund	223,665
General Fund	Local Street Fund	31,183
Total		<u>\$ 454,848</u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Fund Providing Resources	Fund Receiving Resources	Amount
General Fund	Water and Sewer Fund	\$ 193,195

This transfer provided debt service levy to the Water and Sewer Fund for payment of Unlimited Tax General Obligation Bonds.

Note 7 - Shared Expenses and Elected Officials

The Village received the following payments from the Township of Grosse Pointe for shared expenses for the year ended March 31, 2005:

Rent	\$ 20,000
Insurance	20,000
Administrative services	100,135

Note 8 - Long-term Debt

The Village issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Village. Intergovernmental contractual agreements are also general obligations of the government. Other long-term obligations include compensated absences and net pension obligations.

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2005

Note 8 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
General obligation bonds:							
Unlimited Tax Bonds, Series 2004 -							
Net of unamortized discount:							
Amount of issue: \$1,900,000	2.50% -	\$40,500-	\$ -	\$ 1,881,122	\$ -	\$ 1,881,122	\$ -
Maturing through 2025	4.5%	180,500					
Other long-term obligations:							
Net pension obligation			-	63,778	-	63,778	-
Long-term portion of accrued sick pay liability			628,694	44,094	-	672,788	26,371
Total governmental activities			<u>\$ 628,694</u>	<u>\$ 1,988,994</u>	<u>\$ -</u>	<u>\$ 2,617,688</u>	<u>\$ 26,371</u>
Business-type Activities							
General obligation bonds:							
Unlimited Tax Bonds, Series 2003:							
Amount of issue: \$2,450,000	1.15%-	\$125,000-					
Maturing through 2016	3.80%	235,000	\$ 2,290,000	\$ -	\$ 125,000	\$ 2,165,000	\$ 150,000
Unlimited Tax Bonds, Series 2004 -							
Net of unamortized discount:							
Amount of issue: \$1,600,000	2.50% -	34,500-					
Maturing through 2025	4.5%	14,500	-	1,584,106	-	1,584,106	-
Intergovernmental contractual agreement:							
Mack Avenue Water Main:							
Amount of issue: \$500,000		10,000-					
Maturing through 2012	0.00%	70,000	-	500,000	70,000	430,000	70,000
Total business-type activities			<u>\$ 2,290,000</u>	<u>\$ 2,084,106</u>	<u>\$ 195,000</u>	<u>\$ 4,179,106</u>	<u>\$ 220,000</u>

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ -	\$ 107,532	\$ 107,532	\$ 220,000	\$ 157,354	\$ 377,354
2007	40,500	71,182	111,682	274,500	123,189	397,689
2008	54,000	70,001	124,001	306,000	118,108	424,108
2009	54,000	68,651	122,651	301,000	112,178	413,178
2010	54,000	67,247	121,247	296,000	105,877	401,877
2011-2015	391,500	154,608	546,108	1,473,500	400,333	1,873,833
2016-2020	540,000	114,121	654,121	690,000	189,828	879,828
2021-2025	766,000	52,434	818,434	634,000	75,377	709,377
Total	<u>\$ 1,900,000</u>	<u>\$ 705,776</u>	<u>\$ 2,605,776</u>	<u>\$ 4,195,000</u>	<u>\$ 1,282,244</u>	<u>\$ 5,477,244</u>

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2005

Note 8 - Long-term Debt (Continued)

Defeased Debt

During prior years, the Village defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account's assets and liabilities for the defeased bonds are not included in the basic financial statements. At March 31, 2005, \$2,150,000 of bonds outstanding are considered defeased.

Note 9 - Restricted Assets

Restricted assets consist of the following:

	Governmental Activities				Business-type
				Total	Activities
	General Fund	Major Street	Local Street	Governmental Activities	Water and Sewer
Unspent bond proceeds	<u>\$ 167,839</u>	<u>\$ 570,705</u>	<u>\$ 780,229</u>	<u>\$ 1,518,773</u>	<u>\$ 1,444,918</u>

Note 10 - Risk Management

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Village has purchased commercial insurance for employee medical claims, participates in the Michigan Municipal Risk Management Authority state pool program for claims relating to property loss, torts, errors and omissions, and personal injuries, and participates in the Michigan Municipal League risk pool for claims relating to workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Michigan Municipal Risk Management Authority's State Pool program operates as a common risk-sharing management program for local units of government in Michigan. Member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts. A portion of the excess insurance coverage is underwritten by the Authority itself.

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2005

Note 11 - Defined Benefit Pension Plan

Plan Description

The Village contributes to the General and Public Safety Retirement System, which is the administrator of a single-employer public employees' retirement system that covers essentially all general and public safety employees of the Village. The plan does not issue a separate financial report.

The system provides retirement, death, and disability benefits to plan members and their beneficiaries. At March 31, 2005, membership consisted of 30 retirees, beneficiaries, and alternate payees currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 42 current active employees.

Contributions

Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plans are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans. Please refer to Note 1 for further significant accounting policies.

The obligation to contribute to and maintain the system for these employees was established by the Village charter. All full-time general and public safety employees are eligible to participate in the system. General participants in the system are required to contribute 3 percent of the first \$4,200 of annual salary plus 5 percent of annual salary in excess of \$4,200 to the system. Public safety participants are required to contribute 6 percent of their annual salary to the system. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

Annual Pension Cost

For the fiscal year ended March 31, 2005, the Village's annual pension cost and required contribution of \$198,111 for the plan was greater than the Village's actual contribution of \$136,137. The annual required contribution was determined as part of an actuarial valuation at March 31, 2004, using the individual entry-age cost method. Significant actuarial assumptions used include (a) a 7.5 percent investment rate of return and (b) projected salary increases of 5.7 percent to 9.3 percent per year. Both (a) and (b) include an inflation component of 5.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 10 years.

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2005

Note 11 - Defined Benefit Pension Plan (Continued)

As of March 31, 2005, the plan's required reserves have been fully funded as follows:

Reserve for employees' contributions	\$1,864,205
Reserve for retired benefit payments	7,199,002

Three-year Trend Information

	2005	2004	2003
Annual pension cost (APC)	\$ 198,111	\$ 101,976	\$ -
Percentage of APC contributed	68.7%	98.1%	100.0%
Net pension obligation	\$ 61,812	\$ 1,976	\$ -

Note 12 - Other Postemployment Benefits

The Village provides health care benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 29 retirees are eligible. The Village includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participant. The Village purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment health care benefits are recognized in the Retired Employees' Health Care Benefit trust fund as the insurance premiums become due; during the year, this amounted to \$228,138.

In the current year, the plan's reserves have been funded as follows:

Reserve for postemployment health care benefits	\$1,198,941
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The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rule will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending March 31, 2010.

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2005

Note 13 - Joint Venture

The Village is a member of the Grosse Pointes-Clinton Refuse Disposal Authority joint venture (the "Authority"), which provides refuse disposal services to participating municipalities in the counties of Wayne and Macomb, Michigan. Other members include the cities of Grosse Pointe Farms, Grosse Pointe Park, Grosse Point, Harper Woods, Mount Clemens, Grosse Pointe Woods, and the Township of Clinton. The Village Council appoints one member to the Authority's governing board, which then approves its budget. The Authority currently contracts with a commercial refuse disposal company and bills members for their proportionate share of the costs.

The Village's interest in the net assets of the Authority totaled approximately \$21,000 at March 30, 2005 and is reported as part of the governmental activities in the statement of net assets. The Village is unaware of any circumstances, including potential environmental remediation, that would cause an additional burden to the participating municipalities in the near future. Complete financial statements for the Authority can be obtained from their administrative offices at 27941 Harper Avenue, Suite 106, St. Clair Shores, MI 48081.

Required Supplemental Information

Village of Grosse Pointe Shores, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended March 31, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 4,448,983	\$ 4,360,433	\$ 4,372,199	\$ 11,766
State-shared revenue	239,000	233,780	235,597	1,817
Licenses and permits	71,000	60,700	54,667	(6,033)
Fines and forfeitures	215,000	214,000	239,526	25,526
Ambulance fees	35,000	33,000	35,521	2,521
Building rent	20,000	20,000	20,500	500
Interest	13,000	20,000	48,143	28,143
Proceeds from long-term debt	-	168,000	173,000	5,000
Other	130,000	131,000	172,976	41,976
Transfers in	150,000	150,000	146,904	(3,096)
Total revenue	5,321,983	5,390,913	5,499,033	108,120
Expenditures				
Village Council	82,000	65,775	59,221	6,554
Judicial	108,756	115,000	116,157	(1,157)
Village manager	437,653	430,898	448,616	(17,718)
Elections	3,700	2,920	2,904	16
Financial administration	350,700	316,700	317,935	(1,235)
Village clerk	100	100	100	-
Building and grounds	441,289	480,000	475,427	4,573
Public safety	2,253,693	2,084,680	2,111,175	(26,495)
Public works	351,768	360,000	353,774	6,226
Sanitation	467,514	402,726	392,147	10,579
Parks and recreation	467,310	475,000	473,617	1,383
Fringe benefits	272,000	299,500	281,531	17,969
Insurance	85,500	85,500	85,217	283
Total expenditures	5,321,983	5,118,799	5,117,821	978
Excess of Revenue Over Expenditures	-	272,114	381,212	109,098
Fund Balance - Beginning of year	569,057	569,057	569,057	-
Fund Balance - End of year	<u>\$ 569,057</u>	<u>\$ 841,171</u>	<u>\$ 950,269</u>	<u>\$ 109,098</u>

Village of Grosse Pointe Shores, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Fund - Major Street Year Ended March 31, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
State-shared revenue	\$ 125,000	\$ 120,100	\$ 121,626	\$ 1,526
Interest	500	515	543	28
Proceeds from long-term debt	-	594,292	600,000	5,708
Total revenue	125,500	714,907	722,169	7,262
Expenditures				
Highways and streets	125,500	144,083	145,550	(1,467)
Transfers out	-	10,000	-	10,000
Total expenditures	125,500	154,083	145,550	8,533
Excess of Revenue Over Expenditures	-	560,824	576,619	15,795
Fund Balance - Beginning of year	82,455	82,455	82,455	-
Fund Balance - End of year	<u>\$ 82,455</u>	<u>\$ 643,279</u>	<u>\$ 659,074</u>	<u>\$ 15,795</u>

Village of Grosse Pointe Shores, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Fund - Local Street Year Ended March 31, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
State-shared revenue	\$ 56,000	\$ 51,116	\$ 54,211	\$ 3,095
Interest	100	250	30	(220)
Proceeds from long-term debt	-	1,116,085	1,127,000	10,915
Transfers in	-	10,000	-	(10,000)
Total revenue	56,100	1,177,451	1,181,241	3,790
Expenditures - Highways and streets	56,100	358,150	430,084	(71,934)
Excess of Revenue Over Expenditures	-	819,301	751,157	(68,144)
Fund Balance - Beginning of year	9,869	9,869	9,869	-
Fund Balance - End of year	<u>\$ 9,869</u>	<u>\$ 829,170</u>	<u>\$ 761,026</u>	<u>\$ (68,144)</u>

Village of Grosse Pointe Shores, Michigan

Required Supplemental Information General and Public Safety Retirement System Pension System Schedule of Funding Progress March 31, 2005

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Overfunded Actuarial Accrued Liability	Funded Ratio (Percent)	Covered Payroll	Actuarial Accrued Liability as a Percentage of Covered Payroll
March 31	(a)	(b)	(b-a)	(a/b)	(c)	
2000	\$ 16,633,164	\$ 11,705,010	\$ (4,928,154)	142.1	\$ 2,171,026	227
2001	17,378,211	12,564,575	(4,813,636)	138.3	2,185,268	220
2002	17,453,207	13,447,907	(4,005,300)	129.8	2,240,075	179
2003	16,398,658	13,997,185	(2,401,473)	117.2	2,328,221	103
2004	15,987,977	14,685,220	(1,302,757)	108.9	2,271,915	57
2005	15,757,277	15,286,827	(470,450)	103.1	2,359,314	20

The schedule of employer contributions is as follows:

Years Ended March 31	Annual Required Contribution	Percentage Contributed
2000	\$ -	100.0
2001	-	100.0
2002	-	100.0
2003	-	100.0
2004	101,976	98.1
2005	198,111	68.7

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of March 31, 2005, the latest actuarial valuation, follows:

Actuarial cost method	Individual entry age
Amortization method	Level percent of payroll, closed
Remaining amortization period	10 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return*	7.5%
Projected salary increases*	5.7% - 9.3%
*Includes inflation at the rate of	5.5%

Village of Grosse Pointe Shores, Michigan

Note to Required Supplemental Information March 31, 2005

Note - Budgetary Information

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and all Special Revenue Funds except that operating transfers and debt proceeds have been included in the "revenue" and "expenditures" categories, rather than as an "other financing source" and reimbursements from other funds have been included in revenue, rather than as a reduction of expenditures. The annual budget is prepared by the Village superintendent and adopted by the Village council, and subsequent amendments are approved by the Village council. Unexpended appropriations lapse at year end and encumbrances are not included as expenditures. The amount of encumbrances outstanding at March 31, 2005 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

The statement comparing actual to budgeted revenue and expenditures is presented on the same basis of accounting used in preparing the adopted budget. Following is a reconciliation of the budget statement of the General Fund to the operating statement:

	Revenue	Expenditures
Budget statement amount	\$ 5,499,033	\$ 5,117,821
Major and Local Street Funds expenditure reimbursements	(146,904)	(146,904)
Proceeds from long-term debt	(173,000)	-
Operating transfers out	-	(193,195)
Total operating statement amount	<u>\$ 5,179,129</u>	<u>\$ 4,777,722</u>

The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of the actual results of operations to the General Fund budget as adopted by the Village Council is included in the required supplemental information. A comparison of the actual results of operations to the nonmajor Special Revenue Funds budget as adopted by the Village Council is available at the Village's office for inspection.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the Village of Grosse Pointe Shores, Michigan incurred expenditures that were in excess of the amounts budgeted. These unfavorable variances were caused by unanticipated expenditures that became necessary during the year. The budget overruns are as follows:

Village of Grosse Pointe Shores, Michigan

Note to Required Supplemental Information March 31, 2005

Note - Budgetary Information (Continued)

	Amended Budget	Actual
General Fund:		
Judicial	\$ 115,000	\$ 116,157
Village manager	430,898	448,616
Financial administration	316,700	317,935
Public safety	2,084,680	2,111,175
Local Street Fund - Highways and streets	358,150	430,084

Other Supplemental Information

Village of Grosse Pointe Shores, Michigan

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds March 31, 2005

	<u>Special Revenue Funds</u>		Total Nonmajor Governmental Funds
	<u>Budget Stabilization</u>	<u>911 Service</u>	
Assets - Due from General Fund	<u>\$ 200,000</u>	<u>\$ -</u>	<u>\$ 200,000</u>
Fund Balances - Unreserved - Undesignated	<u>\$ 200,000</u>	<u>\$ -</u>	<u>\$ 200,000</u>

Village of Grosse Pointe Shores, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds Year Ended March 31, 2005

	Special Revenue Funds		Total Nonmajor Governmental Funds
	Budget Stabilization	911 Service	
Revenue - Other	\$ -	\$ 9,622	\$ 9,622
Expenditures - Public safety	-	9,622	9,622
Net Change in Fund Balances	-	-	-
Fund Balances - Beginning of year	200,000	-	200,000
Fund Balances - End of year	<u>\$ 200,000</u>	<u>\$ -</u>	<u>\$ 200,000</u>

Village of Grosse Pointe Shores, Michigan

Other Supplemental Information Combining Statement of Net Assets Fiduciary Funds - Trust Funds March 31, 2005

	General and Public Safety Retirement System	Retired Employees' Health Care Benefits	Total
Assets			
Cash and cash equivalents	\$ 71,419	\$ 1,180,484	\$ 1,251,903
Investments:			
U.S. government securities	1,638,087	-	1,638,087
Common and preferred stock	9,837,197	-	9,837,197
Corporate bonds	3,625,869	-	3,625,869
Accrued interest and dividends	93,051	-	93,051
Prepaid expenditures	-	18,457	18,457
	<u>15,265,623</u>	<u>1,198,941</u>	<u>16,464,564</u>
Total assets			
	15,265,623	1,198,941	16,464,564
Liabilities - Other liabilities	<u>60,504</u>	<u>-</u>	<u>60,504</u>
Net Assets - Held in trust for pension and other employee benefits	<u>\$ 15,205,119</u>	<u>\$ 1,198,941</u>	<u>\$ 16,404,060</u>

Village of Grosse Pointe Shores, Michigan

Other Supplemental Information Combining Statement of Changes in Net Assets Fiduciary Funds - Trust Funds Year Ended March 31, 2005

	General and Public Safety Retirement System	Retired Employees' Health Care Benefits	Total
Additions			
Investment income (loss):			
Interest, dividends, and net realized income on investments	\$ 452,098	\$ 40,895	\$ 492,993
Net decrease in fair value of investments	(326,843)	-	(326,843)
Less investment expenses	(153,936)	-	(153,936)
Net investment income (loss)	(28,681)	40,895	12,214
Contributions:			
Employer	136,137	257,000	393,137
Employee	133,892	12,415	146,307
Total contributions	270,029	269,415	539,444
Total additions	241,348	310,310	551,658
Deductions			
Pension benefit payments	713,206	-	713,206
Health care benefit payments	-	228,138	228,138
Total deductions	713,206	228,138	941,344
Net Increase (Decrease) in Net Assets Held in Trust	(471,858)	82,172	(389,686)
Net Assets Held in Trust for Pension and Other Employee Benefits			
Net Assets - April 1, 2004	15,676,977	1,116,769	16,793,746
Net Assets - March 31, 2005	<u>\$ 15,205,119</u>	<u>\$ 1,198,941</u>	<u>\$ 16,404,060</u>



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May 27, 2005

To the Village Council
Village of Grosse Pointe Shores
795 Lake Shore Road
Grosse Pointe Shores, MI 48236

Dear Village Council Members:

We recently completed our audit of the financial statements of the Village of Grosse Pointe Shores for the year ended March 31, 2005. In addition to the audit report, we offer the following comments and recommendations for your review and consideration.

New Financial Statement Format (GASB 34)

As you are aware, Governmental Accounting Standards Board (GASB) Statement No. 34 was implemented for the Village's 2005 fiscal year. GASB 34 has dramatically changed the look and feel of the financial statements. While the financial statements retain an element of familiarity with the continued reporting of fund-based information, there are several additions and changes that provide information never before presented in the Village's annual financial report. A brief summary of the changes is as follows:

- **Management's Discussion and Analysis (MD&A)** - The MD&A provides a high-level overview of the Village's financial position and results of operations, with a focus on the government-wide financial statements.
- **Government-wide Financial Statements** - These additional statements adjust the normal fund-based statements into a combined, full-accrual format (similar to for-profit commercial enterprises). This allows a financial statement reader to see the Village from a longer-term, economic perspective (i.e., are today's taxpayers paying for today's services?). These statements show capital assets as well as long-term debt as part of the Village's overall financial picture.
- **Focus on Major Funds** - The fund-based financial statements now focus on the Village's most significant funds (designated as "major funds"). For 2005, the Village's major governmental funds are the General Fund, the Major Street Fund, and the Local Street Fund; both of the Village's enterprise funds, the Marina Fund, and the Water and Sewer Fund, are also considered to be major funds.
- **Budget Comparison** - A financial statement reader will now be able to view not only the actual revenues and expenditures of the Village's General Fund and major Special Revenue Funds as compared to the current budget, but also as compared to the original budget.

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Capital assets, including infrastructure, play a significant part of the new financial statements. The accumulation of this information required significant investment of the Village's resources, both financial and non-financial, primarily in the form of a physical appraisal performed by an outside party with the assistance of Village personnel. The detailed asset information obtained will most likely also be useful for insurance and asset-control purposes. Currently, this detail is being maintained in a spreadsheet program, which may be more susceptible to unintentional errors (i.e., over-depreciating assets, formula errors, etc.). For this reason, we recommend that the data be transferred into a software program specifically designed to account for fixed assets, which includes tracking the depreciation of those assets. It is our understanding that the Village has begun the process of updating and developing capital asset records in an appropriate software program suited for this purpose.

Internal Control and Fraud Prevention

Designing and maintaining a sound system of internal controls over assets, as well as fraud prevention and detection, are on the forefront in today's business environment. As part of our audit of the Village's 2005 financial statements, we performed additional procedures as required by Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit* (SAS 99). While SAS 99 does not change the focus of the financial statement audit to a "fraud audit," the new standard incorporates a change in mindset for auditors to search for and identify significant fraud risk factors. SAS 99 requires auditors to perform specific procedures to search for significant fraud risk factors, including inquiries with certain members of the Village Council, management, and other employees throughout the municipality; a retrospective review of accounting estimates; a detailed review of all journal entries; and other related procedures. We are pleased to report that no significant fraud risk factors or instances of fraud were identified as a result of our procedures.

However, as part of the Village's process of continuous improvement, we noted the following internal control matter that we would like to bring to your attention for consideration:

- Current banking arrangements designate the finance officer of the Village as one of the authorized check signers on the payroll bank account. The finance officer does not sign the checks in practice; however, since the finance officer also has the ability to add new employees to the payroll system and print payroll checks, the ability to sign the payroll checks creates the potential for an internal control weakness. We recommend that the finance officer be removed as an authorized check signer on this account to remove that potential area of weakness.

Accounting and Administrative Matters

- During 2005, the Village began reimbursing a neighboring community for the construction cost of a water main which will benefit both communities. The project was paid for by the adjoining community with the understanding that the Village will reimburse its portion, which is anticipated to be approximately \$500,000, over the next several years. Formal approval of this arrangement was not noted in the Council meeting minutes. While the exact cost to the Village had not been finalized as of the end of the year, we would recommend that authorization to enter into preliminary agreements of such a significant dollar amount be expressly approved by the Village Council, as reflected in the Council meeting minutes.
- In order to properly reflect the operating results of its various funds, the Village allocated certain expenses to the Water and Sewer Fund during 2005, such as postage, software maintenance, and copy machine usage that were originally paid for by the General Fund. It is our understanding that no schedule was prepared/retained to indicate the basis for the allocation. While it is important to assign costs to the proper funds, we recommend that the Village create a system to track actual usage per fund where possible or develop and record a reasonable method to allocate these costs.
- Through our review of the Pension Board meeting minutes, we noted instances in which the minutes had not been signed by the necessary officials. In the interest of maintaining complete and accurate records of the Board's discussions and decisions, we suggest that all meeting minutes reflect the proper approvals.

Pre-funding of Retiree Health Care

As you are aware, the Village provides postemployment benefits for all eligible employees. The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. These new rules will apply to the government-wide financial statements, rather than the individual fund financial statements. As a result, you will not need to change your budgeting practices.

May 27, 2005

As you know, the promise to provide health care to retirees is very similar to the promise to provide an annual pension check. Similar to the current accounting for the pension systems, the new pronouncement will require the Village to obtain or internally complete an actuarial valuation of the obligation to provide retiree health care benefits. In addition, the Village's funding status or the progress it has made in accumulating assets to pay for this liability will be disclosed in the financial statements. Lastly, it will be recommended that the Village make an annual contribution equal to the amount that the actuary deems necessary to fund the liability. As you know, the Village has already established a separate fund to account for these benefits and has started to set aside funds for this liability under the provisions of Public Act 149. The changes required under GASB 45 will be effective in 2009. We would be happy to assist the Village in adopting the provisions of GASB Statement 45.

We would like to thank you for the opportunity to serve the Village of Grosse Pointe Shores. We would also like to express our appreciation for the courtesy and cooperation extended to our staff by Rhonda and Mike during the audit. If you have any questions regarding any of the information noted above or presented in the financial statements, please feel free to call us at your convenience.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink, reading "Bruce M. Berend". The signature is written in a cursive style with a large, stylized 'B'.

Bruce M. Berend

A handwritten signature in black ink, reading "Jenny L. Cederstrom". The signature is written in a cursive style with a large, stylized 'J'.

Jenny L. Cederstrom